



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

NORTH AMERICAN REVIEW.

No. CCCCLXI.

APRIL, 1895.

A LAST TRIBUTE.

BY EX-SPEAKER REED.

THE three months' session of the last Congress which the Democratic party will control for many years, has not been any more profitable to the country than the previous period of its existence ; nevertheless, there exist to-day fewer opportunities for that ringing condemnation which characterized comments on its former sessions. There is a limit to the evil which any one Congress may do, and even the incompetent get tired of the exercise of their own incompetency. Still there were some points of incapacity which remained to be illustrated in order that the country might have a rounded result which would remain as a significant lesson to the people for a long period of time. It will not be possible, however, to describe these last three months with as much vigor as was suitable in describing those which preceded it. Human nature revolts against it. The verdict of the people was so overwhelming at the last election that there is upon us all that soberness which one cannot help feeling for the dead even when they did not die in the Lord and can have no desire that their works shall follow them. Moreover, the country more thoroughly than ever before appreciates the extent of the disaster which has happened to it and realizes how slow must be the process of recuperation. There are times when depression is so great that men have no heart to revile even those who were the sources of their sorrow.

When Congress assembled in Washington in December, the condition of the Treasury was such as to excite the alarm of judicious men and cause much apprehension for the future. All the anticipations which had been indulged in by its enemies as to the revenue-producing powers of the new Tariff bill, with its adjuncts, the increase of the spirit tax and the income tax, had been more than realized. The last month's loss to the treasury, comparing its expenses with its disbursements, had been more than nine millions, and it seemed probable that the following months would show still worse results. Into what bad shape we were getting was, however, far from being understood. Never before since the stress of the war had the revenues of the Government fallen behind its expenditures. We had always so great a surplus that we were far ahead of the sinking fund requirements, and were able even during the trying times which preceded the resumption of specie payments to make our revenues more than meet our expenditures, and were not forced to add to the depression of business the still greater depression of a bankrupt treasury. This last depression we have been obliged to undergo during the two preceding years and under peculiar circumstances which rendered it most disastrous.

One of the circumstances which made the condition of our treasury so much more unfortunate for us at this time than any other arose from the manner in which the resumption of specie payments was brought about. We had in circulation at the time of resumption, the legal tender notes, amounting to three hundred and forty-six millions, which were secured by a reserve of one hundred millions in gold and unlimited power of borrowing lodged in the discretion of the Secretary of the Treasury. We afterwards added, as the result of monthly purchases of silver under the law of 1890, one hundred and fifty million of notes, which the policy of the Government had made equal to the legal tenders in their power to demand gold. Hence, when the present Administration came into power there were four hundred and ninety-six millions of paper resting upon the gold reserve. In this state of affairs Congress adjourned last summer with a deficit already existing and a still larger one staring the country in the face. That the regular expenses of the Government must be paid no one doubted. Government expenses must

go on, for governmental expenses are, like food, raiment and shelter, the prime necessities of human life. Without courts justice would fail, and just now a large proportion of our railroads could not be run; without paid officials even our deficient revenues could not be collected; without lighthouses the ships could not come to port.

Notwithstanding this plain outlook there was no special provision made. Whether this was the result of ignorance or pride makes no difference, the fact remained that as a business establishment, the United States having directly before its vision an empty treasury and a deficient revenue, made no special provision for the exigencies so plainly in sight. Before the present Administration came into power, the possibilities before it were so plainly evident that provision was made by the Senate giving to the Secretary of the Treasury a borrowing power to enable him to meet any possible deficit which might occur in the transition period between the two systems of taxation, the one already existing and the one which was to come. This provision was rejected by the House with the consent of the Administration. I say with the consent of the Administration, because such is common rumor supported by at least one reliable witness. Certain it is that such a measure might have been passed had the Administration desired it.

This abandonment of the temporary power of borrowing thus proffered by the Senate left the Government only one resource, which was the power given it under the acts relating to the resumption of specie payments, to borrow money for redemption purposes. Of course this power was not intended to be used to supply deficient revenues. Such was not its object, but it was made use of in this way. The legal tender and perhaps other notes redeemed out of the gold reserve were reissued after their redemption, and reissued in payment of those current expenses which could not be paid out of the current revenues because they were not sufficient. In this way about \$107,000,000 of deficit were paid. To a careless observer it might seem as if it would make no difference. In either event, whether the money was borrowed under the acts relating to resumption or under the proposed temporary power to borrow, the same United States paid. But there was another side to this method of procedure. The United States had become both a business house and a banking insti-

tution; as the issuer of legal tenders it had agreed to redeem them on presentation. It did so, using the redemption fund for that purpose. But instead of storing up the redeemed notes as any bank would have done when there was a run upon it, and as the United States Treasury would have necessarily done had the revenues equalled the expenditures, the treasury paid out the notes again to liquidate its debts and to be again redeemed out of the resumption fund. From a political point of view this might have been excellent, for it concealed from the people the tremendous deficit. From a financial point of view it was exceedingly disastrous. As the people saw pile after pile of gold set up to melt away like snow beneath a summer sun, it seemed as if all human confidence in our Government had disappeared. There are no matters in which there are so many illusions as in currency, especially during financial crises, and nowhere more than in the domain of finance does the unexpected happen. Who would have ventured to say until it happened that the issue of the one-pound notes in 1825 in England would have ended the monetary crisis of that year. What was perhaps an infraction of the law has twice saved us by the issue of Clearing House certificates. Of course, the relation of cause and effect in these cases is now understood, but the knowledge was the result of experiment. However that may be, there can be no doubt that the process by which the redemption of legal tenders and the payments of the deficit were mixed up, helped greatly to create the feeling of insecurity which has rested so heavily upon our people. It seemed as if redemption of nearly 200,000,000 legal tenders had been demanded by an untrusting world, and that no end of this process was in sight. In reality only 88,000,000 had been retired; the other money, the bulk of the sum which had disappeared, had gone to pay debts due—debts resulting from tariff action—and threatened action which caused the Treasury to fail to pay its way by that great sum.

Such being the condition of the Treasury, the first thing which would naturally have been done by a compact, competent party in charge of all branches of the government would have been to replenish the Treasury by the passage of acts which would have created the needed revenue, or if a future surplus was really believed in or hoped for, by acts which would have enabled the Treasury to separate in the public mind the payment of debts

from the redemption of currency and cut the "endless chain" which was pumping the gold of this country into the "markets of the world."

Instead of this, under the auspices of the Secretary of the Treasury, Mr. Springer presented to the discordant multitude which held sway in the House of Representatives a bill to reconstruct our entire banking system. Hardly had the subject been presented to the House before it was apparent to all that the system was incongruous and impossible, acceptable neither to the House nor the outside world.

Mr. Springer then opened a campaign in favor of a substitute, which had no better success and deserved the fate it met, for it attempted to harness to the same team steeds which could never pull together. The whole equipage seemed to fall of its own inherent weakness.

In the case of both these bills no effort whatever was made to take the questions involved out of politics and to enlist the services and support of those in favor of a sound currency without regard to political affiliations. The sole effort seemed to be to unite their own people on something consistent with the prejudices, prepossessions and platform of the Democratic party as a party. Of course, if that party had been united and compact, or even capable of being made so, this would have been a laudable method to adopt. But everybody knew, by the fatal experiences of the two preceding sessions, that such was not the case—that there was no possibility of cohesion, no probability of agreement.

It was admitted on all hands that something ought to be done with regard to our banking system. The only excuse for the existence of banks is the public advantage, and if they are worth establishing at all they should be adapted to the uses which make them of public advantage. The business of this community depends on banking facilities much more than people ordinarily comprehend. With bank deposits of \$4,500,000,000 as a basis on which bank credits can be issued the purchasing power of the country is very greatly enlarged, and its influence on prices and on business cannot be too much insisted upon. Such is the facility with which credits can be transferred and so easily are payments made by this means that the proportion which these deposits bear to the amount of currency, a proportion of three to one, in no way measures the relative importance of the

two. During the last panic we were brought face to face with one phase of this influence of bank deposits on the transaction of business. We found that it was a very serious clog to business when banks, from motives of prudence, declined to credit uncollected checks and drafts, and the minds of men were turned to the question whether there might not be some reason for legislation which would make all deposits safe as well as all currency. If there had been behind all deposits a certainty of protection, as there is behind all currency, currency would hardly have been at two or three per cent. premium.

National banks have been the subjects of much sharp criticism because of the money they made out of the favorable circumstances connected with the United States bonds. The cause of that criticism has certainly passed away, as has been shown by the diminished circulation which they have made use of.

In 1873 the bank circulation reached \$341,000,000, and, notwithstanding the increase of population and of business, in 1890 was reduced to \$122,000,000, and has since reached \$207,000,000. The deposits in banks are made up of the money of the people temporarily not in use, the odds and ends, as it were, of business. The amount of each deposit may be and is comparatively insignificant, but the total is vast. The time each particular deposit can be available is most uncertain, but the average of the whole is in ordinary times, at least, nearly unvarying. Therefore, it happens that what separately would be incapable of use, collectively becomes of constant use.

One obstacle to the adjustment of our banking situation has been the high price of United States bonds and the 90 per cent. restriction. If this restriction were removed and some readjustment of bonds made by refunding, with reduction of interest, coupled with a suitable change in taxation, the banking facilities of the country might be much increased.

One thing is certain, that banking is a business which men enter upon for the purpose of making money, and no way has ever yet been invented to induce men to go into any sort of business permanently which does not pay. In this country, and perhaps in all others, there are statesmen who think, though they do not quite acknowledge it, that there is some method discoverable whereby business can be carried on, traffic set in motion, and great enterprises carried out with no incentive whatever, and

especially without the incentive of possible profits. But history is rather against this unacknowledged theory, and also human nature, so far as it has yet been investigated.

Had something in the directions indicated been proposed, the House might have taken some action—though, of course, the action of the Senate might have been difficult to predict. But, instead, a system of banking on assets alone was proposed, with three different kinds of banks—old national, new national and State banks—and the plan had little support. Whether a radical change in our system is to be demanded by the country only time can tell, and with divergent opinions likely to be entertained by the two branches, or, perhaps, we should say three branches of the legislative power, there will be time enough to consider the whole question in all its bearings during the vacation now before us.

These two attempts of Mr. Springer ended the efforts at financial legislation until, under the stimulus of a special message, a new attempt was made to strengthen the position of the Treasury. This new attempt, which was on party lines without consultation, was also placed in charge of Mr. Springer, whose rapid progress from his free silver position in 1890 is a living illustration of the controlling influence of responsibility. While the bill contained many things deserving commendation, it failed in one thing absolutely essential. It had not the power to secure its own passage through the Senate. This everybody in Congress knew, but the people did not know. Recent events have made this apparent and the attitude of the Senate is now clearly visible. Under these circumstances, which were evident to all thinking men in Congress and are now evident to all outside who have watched the course of events, the Republicans of the House, without any party designs, for the sole purpose of aiding their country in distress, after full consultation with the members of the Senate who have, in a special degree, the confidence of the country, determined to proffer a practical measure which would give to the Treasury all the aid which was possible with the present membership of the House and Senate. They would gladly have aided in any measure to increase the revenue, but when the Secretary of the Treasury declared his faith in a coming surplus, they felt it impossible to force upon him revenues which he declared he did not need. Hence, the Republican proffer included only a right to issue certificates of indebtedness on short time to pay the deficit and a further enlarge-

ment of the power of the Secretary to borrow for resumption purposes. Had such a bill passed, with some modification if needed to prevent the use of the national bank notes to deplete the redemption fund, the demands made on that fund would have taken care of themselves. The run would have stopped of itself.

The utility of this plan was very great, and even now ought to become a part of our permanent financial system, if the Treasury is to be a redeeming agency. It was precisely what Mr. Sherman, then Secretary of the Treasury, recommended as necessary in his report of 1879, after the resumption of specie payments. "I suggested," said Mr. Sherman in the Senate, Feb. 27, 1895, "that there ought to have been two separate funds—one for resumption and one for current disbursements. If Congress had performed its duty at the time, this trouble would never have arisen." Mr. Sherman's report for 1879 is well worth reading in this connection. What Mr. Sherman recommended in 1879, and the Republicans were ready to do in 1895, was what Mr. Manning tried to do without law while he was Secretary of the Treasury. What he could do, however, he did. He separated the resumption fund of 100 millions from the ordinary assets of the Treasury. This arrangement, unfortunately, not having the direct sanction of law, broke down as soon as the exigencies of a depleted Treasury began to be felt.

This proffer of the Republicans, with an amendment to secure the issue of bank notes up to the par of the bonds, would have carried but for the express disapproval of the Secretary of the Treasury. His remedy appeared later in the bond contract, now somewhat famous. The salient features of this transaction have been so fully criticised that there is no intention here to repeat the criticisms. One thing, however, ought to be distinctly understood. The clause giving us ten days in which to proffer gold bonds was known to every one in Washington to be impracticable and impossible. Not only did the Secretary know it, but the bond buyers must have known it, for they advertised abroad for subscriptions before either House had passed on the question of the option. That the syndicate will make a large sum of money I cannot venture to assert, for the contract is not yet fulfilled. When the pool is closed we shall know. In the most important aspect of the case it is of no consequence whether these enterprising people make money or not, nor from this point of view is it even of con-

sequence whether the Secretary of the Treasury wisely paid the large difference between the \$62,000,000 at $3\frac{1}{2}$ per cent. and the same sum at $2\frac{1}{4}$ per cent. In any event, the Democratic party have so governed this country that in two years after they came into power they have cost us 5 or 10 millions on a loan of \$62,000,000. That is the measure of the disaster which has overtaken us. Whether the Administration is to blame for a bad bargain, or whether the party is to blame for placing us where such a bad bargain was a good one, amounts to one and the same thing. These people have cost us this large sum of money in some way or other.

The Republicans, when money was active and everywhere sought for, funded \$250,000,000 at 2 per cent., and the present Secretary, when money was a drug in every bank, has funded \$62,000,000 at $3\frac{1}{2}$ per cent. It is quite true that there are other things beside the demand notes of various kinds which depend upon the promise of the Government to make all the dollars equal and interchangeable, and that in a certain sense all the currency we use is based on the Treasury reserve. Yet there can hardly be a doubt that a very limited temporary withdrawal of the demand notes would make apparent the large amount of currency required to do even the diminished business of this country, and the resulting reduction of currency would work its own cessation.

It has already been said that the Government must live and must go on. We have to make appropriations, whatever may come into the Treasury. Yet I fancy that the country, especially that part of the country which remembers the wild outcries in 1890 about the Billion Congress, will be surprised to learn that no deficiency in the revenue, not even though it approaches a hundred millions, has prevented this Congress from declaring by their appropriation acts that the "wants of the Government economically administered" exceed by several millions what they used to denounce as the wanton extravagance of Republicans, and this, although more than 50 millions have been saved by the natural decrease of pensioners by death. As matters of reproach between parties, these great figures have ceased to be very valuable and are to be quietly added to that long catalogue of things which the Democracy does when in power and denounces when out of power. Even Judge Holman, after a lifetime spent

at the shrine of vocal economy, was forced by personal experience to realize that national expenditure is national necessity. Representatives do but respond to the demands of the people and the real source of public economy must be in the people themselves. Taxes are no longer imposts placed upon citizens to be wasted for purposes of magnificence and show, but are for the most part wealth of the whole used for the benefit of the whole. Nevertheless, whether the income tax, the spirit tax, and the sugar tax produce for us or not a surplus, as is fondly hoped, the fact remains that the annual earnings of this country have not for long years been so small nor its power of expenditure so much limited. It is sincerely to be hoped that any effort made by the next Congress to keep down the appropriations may have the support of public sentiment and popular forbearance. For if each portion of this country should be reasonable in its demands, the total also would be reasonable.

After all the great causes of complaint against the outgoing House, it will seem a trifle unimportant to comment on the appointments of the members of the House to represent the country at the possible international conference to restore bimetallism. The House to which these gentlemen will report will be Republican by a large majority, and it seems as if a sense of propriety would have dictated the appointment of two Republicans out of the three so as to represent the majority of the body to which they will report if any action should have to be taken. This is not said in criticism of the presiding officer, who, undoubtedly, reflected the sentiments of his side of the House.

We have now come to the end of the two years during which the Democratic party have held control of both Houses of Congress and of the Executive. There is no need whatever to show by language what the results have been; no words can add to the force of living facts. The immediate cause of the failure has been party dissension and party differences. The whole being unable to agree, the more violent have had the larger sway—modified, however, by the control given to conservative men by the small majority in the Senate. What would have happened had the new Postmaster-General and his friends held exclusive sway we shall happily never know. What we do know without that is sufficient.

Bad as the state of the country is, it might have been worse.

But such as it is, there seems but little hope of rescue, so far as legislation may go, in the immediate future. Hence, it seems sensible for us to consider and treasure up in our minds certain simple facts. The expression of feeling in the country last autumn—deep, powerful and satisfactory as it was—must be remembered in its relations to our institutions. The will of the people, as to the party to which it has concluded to trust its future, has been expressed; but it has not yet been executed. Under our system of government there is no way in which even 130 majority in the House of Representatives can be made effectual outside the walls of the Chamber. It cannot overflow into the Senate, nor can it overpower the Executive. Whatever, therefore, is expected of it must be modified in the mind of every wise man by the conditions which, by the past votes of the American people, still remain in the Senate and in the White House. All these different and differing people must think together to be effectual. Where it is evident that they cannot think alike the differences can only be reconciled by the vote of the people when next comes to them the opportunity to rectify any of the mistakes of the past.

The great advantage of the last election, and perhaps the only advantage, is that a halt has been called to destructive legislation. We may hope, with some assurance, for nothing worse, even if we can expect nothing better.

THOMAS B. REED.